

(Published in the Official Gazette dated 26 September 2002, no. 24888.)

NATURAL GAS MARKET TARIFFS REGULATION

PART ONE

General Provisions

SECTION ONE

Objective, Scope, Legal Basis and Definitions

Objective

Article 1- The objective of this Regulation is to set forth the principles and procedures regarding preparation, review, evaluation, determination, approval, issuance and revision of tariffs pertaining to natural gas market activities.

Scope

Article 2- This Regulation covers the principles and procedures pertaining to connection, transmission and dispatch, storage, wholesale and retail sale tariffs.

Legal basis

Article 3- This Regulation is issued as per the provisions of Electricity Market Law no. 4628 and Natural Gas Market Law no. 4646.

Definitions

Article 4- For the purposes of interpretation and implementation of this Regulation, the following terms shall bear the following meanings:

- 1) **Law:** Natural Gas Market Law No. 4646, dated 18/4/2001.
- 2) **Authority:** Energy Market Regulatory Authority.
- 3) **Board:** Energy Market Regulatory Board.
- 4) **President:** President of the Energy Market Regulatory Board.
- 5) **BOTAŞ:** Petroleum Pipeline Corporation
- 6) **Unit service and depreciation charge:** Charge determined for delivering one kWh of natural gas to a customer by the distribution company, including depreciation and return.
- 7) **Distribution network:** Natural gas distribution facilities and pipelines operated by any distribution company in its respective specified region.
- 8) **Distribution company:** Any legal entity authorized to carry out natural gas distribution and transportation activities through local gas pipeline network within a specified city.

Disclaimer:

The English version of the Natural Gas Market Tariffs Regulation is intended to assist interested foreign parties. There may be discrepancies between the Turkish and English versions. In case such discrepancies occur, the Turkish version shall prevail.

9) **Storage:** Storing the natural gas as in gaseous or liquefied natural gas (LNG) form in order to meet daily and seasonal fluctuations and to cover natural gas deficiency as a result of shortage or interruption of gas supply.

10) **Storage company:** Any legal entity authorized to engage in natural gas storage activity.

11) **Transmission service charge:** Charge determined for the natural gas transportation service given by the transmission company.

12) **Transmission company:** The legal entity engaged in transmission activity.

13) **Relevant legislation:** Laws, regulations, communiqués, circulars and Board decisions pertaining to the Natural Gas Market, and the license or licenses of the legal entity in question.

14) **Import company:** Any legal entity which imports natural gas in LNG or gas state from abroad for subsequent sale thereof to wholesale companies, eligible consumers or export companies or for direct exportation thereof.

15) **Transmission capacity charge:** Charge determined based on the total burden the daily maximum natural gas amount requested by the supplier brings to the transmission network and the maximum daily capacity allocated to a supplier.

16) **Interruptible natural gas sale:** Natural gas sale based on the principle of interruption of supply within the framework of the provisions of the relevant contract.

17) **Non-interruptible natural gas sale:** Natural gas sale based on the principle of non-interrupted supply.

18) **Interruptible transportation service:** Service based on the principle of interruption of natural gas transportation service within the framework of the provisions of the relevant contract.

19) **Non-interruptible transportation service:** Provision of natural gas transportation service in a non-interrupted manner.

20) **License:** Authorization granted by the Board, separately for each market activity, to any legal entity in accordance with the Law to enable such legal entity to carry out market activities.

21) **Cubic meter (m³):** Amount of natural gas occupying a volume of one cubic meter under the absolute pressure of 1.01325 bars and at the temperature of 15°C.

22) **Market activity:** Purchasing and selling or service or commercial activities including transmission, distribution, wholesale, import, export and storage of natural gas in liquid form in LNG facilities or in gas state or as compressed gas in underground and on-ground facilities and transactions associated with these operations.

23) **Tariff:** Any arrangement which consists of prices, terms and conditions applicable to transmission, distribution, storage in LNG or gas state, and sale of natural gas and the associated services.

24) **Transportation charge:** Charge to be collected by the distribution company for conveyance of one kWh of natural gas.

Disclaimer:

The English version of the Natural Gas Market Tariffs Regulation is intended to assist interested foreign parties. There may be discrepancies between the Turkish and English versions. In case such discrepancies occur, the Turkish version shall prevail.

25) **Supplier:** Import companies, wholesale companies and production companies which sell natural gas to eligible consumers, wholesale companies, import companies, export companies, CNG distribution, transmission and sale companies and distribution companies.

26) **Backhaul service:** Service which is deemed to flow against the prevailing physical flow in the national transmission network

27) **National transmission network:** High-pressure pipelines which constitute a part of the National Transmission System.

28) **System usage charge:** Charge to be collected by the distribution company for conveyance and/or delivery of one kWh of natural gas.

SECTION TWO

Tariff Types, General Principles and Units to be taken as Basis in Pricing

Tariff types

Article 5- Types of tariffs addressed in this Regulation are as follows:

- 1) Connection tariffs,
- 2) Tariffs pertaining to transmission and dispatch,
- 3) Storage tariff,
- 4) Wholesale tariff,
- 5) Retail sale tariff.

General principles

Article 6- Provision of adequate amount of natural gas of good quality to consumers, at low cost, and in a safe and reliable manner, and principles of non-discrimination and transparency shall be taken as basis in preparation of the tariffs.

Units to be taken as basis in pricing

Article 7- Legal entities shall show the prices in their tariffs, with the exception of connection charges, per volumetric unit as a base of 9155 kcal/m³ gross calorific value (m³), and taking energy (kWh).

In determination of amounts of natural gas associated with each legal entity, specification of natural gas and the amounts in m³ shall be taken as basis. The amount of energy shall be calculated by converting the energy amount, calculated by multiplying the amount in m³ by the gross calorific value determined as per ISO 6976 standard, based on the properties of natural gas, into kWh.

SECTION THREE

Required Information and Documents, Tariff Application and Approval, Taxes and Sanctions

Required information and documents

Disclaimer:

The English version of the Natural Gas Market Tariffs Regulation is intended to assist interested foreign parties. There may be discrepancies between the Turkish and English versions. In case such discrepancies occur, the Turkish version shall prevail.

Article 8- The Authority may request from the legal entities information and documents, if any, pertaining to the following issues for the purposes of tariff preparation, review, evaluation, approval and revision: income-expenses and costs determined as per the basic assumptions and separation of accounts, balance sheets and income statements, investments, natural gas, associated services and quality of service, being in actual values for the past two years, estimates for the current year and budgeted amounts for the next year.

The Authority may require all additional information and documents it deems necessary, from the licensees and the legal entities may be invited for meetings.

Tariff application and approval

Article 9- The tariffs addressed in this Regulation shall be subject to the approval of the Board. Terms and conditions of the tariffs approved by the Board shall be binding on all real persons and legal entities subject to such tariffs.

Tariffs to be prepared by the relevant legal entities and the information and documents stated in article 8 shall be prepared and submitted to the Authority by the end of the last tariff period. The Authority will determine the tariffs by considering the financial data and tariff proposals of related legal entities and market data and sent to the Board for approval. The approved tariffs are applied by the legal entities in the next tariff period, which is determined by the Board. Tariff principles and limits may be revised by the Authority, taking inflation and other issues into account.

With respect to legal entities who shall start performing a market activity , tariff proposals and the information and documents stated in article 8 shall be submitted to the Authority at least 90 days prior to the effective date of the relevant tariff.

No cost item which is not directly related to the market activity of the legal entity in question shall be included in the relevant tariff proposal.

Tariff applications which are not filed in accordance with the relevant procedure shall not be processed until the inconformity is remedied. In such a case, the applicant shall be informed in writing and given time to remedy the inconformity.

If the legal entity does not file its application and/or does not remedy the inconformity in time, relevant tariffs shall be determined by the Board.

The tariffs which are approved or determined by the Board shall be publicized by the relevant legal entity.

Taxes and sanctions

Article 10- Legal entities shall be show the taxes and similar financial obligations, which they participate in the collection of, separately in the bills, unless stated otherwise in the applicable laws.

None of the administrative fines determined under article 9 of the Law shall be included as a cost item in the tariffs to be prepared by the legal entities which have been subject to such fines.

Disclaimer:

The English version of the Natural Gas Market Tariffs Regulation is intended to assist interested foreign parties. There may be discrepancies between the Turkish and English versions. In case such discrepancies occur, the Turkish version shall prevail.

PART TWO
Special Provisions
SECTION ONE
Tariffs

Connection tariffs

Article 11- Connection tariffs shall be based on the principle of non-discrimination between eligible consumers with respect to connection to the transmission system or a distribution system. Prices shall be determined, as per such principles, by negotiation between the parties.

Distribution companies shall not be obligated to provide natural gas to non-eligible consumers who are not located in areas under their responsibility. Non-eligible consumers, which fall out of the areas under the responsibility of distribution companies, may connect to the transmission system unless they are able to connect to the most appropriate distribution system. Non-eligible consumers, which fall out of the areas under the responsibility of distribution companies, shall not be obligated to have any distribution company perform their connections. Such non-eligible consumers may have their connections performed by certificate holders. Provisions of the first paragraph shall apply in relation with the connection tariffs of the non-eligible consumers, which fall out of the areas under the responsibility of distribution companies.

With respect to the non-eligible consumers located in areas under the responsibility of distribution companies, fixed connection tariffs determined in the tenders and approved by the Authority shall be applied.

Tariffs pertaining to transmission and dispatch

Article 12- Tariffs pertaining to transmission and dispatch shall be determined by the Board as per the following principles and procedures.

In calculation of the transmission tariffs, revenue cap method shall be used. Revenue cap of a legal entity and the relevant parameters shall be determined in a way to allow for a reasonable return which shall compensate the legal entity's fixed and variable costs and enable the continuation of the legal entity's investments, in compliance with the provisions of the relevant legislation, insofar as the legal entity in question meets the set efficiency targets.

Transmission tariff includes prices, terms and tariff conditions which shall be applied in a non-discriminatory manner to parties using the transmission network for transportation of natural gas produced, imported or exported. Transmission tariffs shall be determined according to the entry-exit system, based on transmission distance, amount of natural gas transmitted, and other factors determined by the Board, taking network operating rules into account.

Transmission charge shall comprise transmission capacity charge and transmission service charge and shall be payable to the transmission company by suppliers.

Disclaimer:

The English version of the Natural Gas Market Tariffs Regulation is intended to assist interested foreign parties. There may be discrepancies between the Turkish and English versions. In case such discrepancies occur, the Turkish version shall prevail.

Within the scope of the tariff proposal to be submitted to the Board, the transmission company may propose different tariffs for backhaul , interruptible, non-interruptible and similar types of transportation services.

The Authority shall be authorized to determine transit transmission tariffs in accordance with different principles and procedures than those applicable for domestic transmission tariffs, for the purposes of promoting transit natural gas transmission.

Within the scope of tariffs pertaining to dispatch, system balancing participation, interruption balancing and service interruption charges shall be determined by the transmission company, within the framework of network operating rules.

Wholesale tariff

Article 13- In wholesale tariffs, abuse of dominant position shall be prevented, natural gas supply security and reliability shall be ensured and other measures determined by the Authority in relation with this issue shall be followed.

Natural gas wholesale prices shall be determined, within the framework of these principles, through negotiations between parties engaged in natural gas sale and purchase, provided that such prices are in conformity with the Board approved tariffs.

Retail sale tariffs

Article 14- Retail price comprises natural gas unit purchase price, unit service and depreciation charges, and other factors.

System usage charge is determined by considering the load because of the customers and the consumption levels that are determined by the board. Unit service and depreciation charge and transportation charge, which will be paid by the consumers who are in a certain interval of consumption, is equal to system usage charge.

The retail price that will be charged by the distribution companies, shall not exceed the retail price cap that is approved by the Board. Distribution companies shall not demand any payment, not under any name whatsoever, from the consumers, other than payment of the retail price approved by the Board.

Retail price applicable to eligible consumers purchasing natural gas and transportation service from a distribution company shall be determined through negotiations between the relevant parties, on the condition that such prices remain below those approved by the Board.

System usage charge that will be collected by the distribution companies by the consumers that purchase natural gas from a supplier shall not exceed the charges that are determined by the board.

A distribution company can not make any discrimination between its own customers and the consumers that purchase natural gas from a supplier.

The Board may gradate the system usage charge by considering the consumption volumes and consumer groups. The Board may determine different levels considering the characteristics of distribution regions.

Disclaimer:

The English version of the Natural Gas Market Tariffs Regulation is intended to assist interested foreign parties. There may be discrepancies between the Turkish and English versions. In case such discrepancies occur, the Turkish version shall prevail.

Distribution companies may implement seasonal tariffs and/or interruptible and/or non-interruptible tariffs, provided that they are in conformity with the Board approved tariff.

In the calculation of the tariffs for the local gas distribution legal entities, which are licensed or to be licensed by the bidding arranged by the Authority, the connection charge and the unit service and depreciation charge are taken into account. The retail price that will be charged from the non eligible customers by the mentioned legal entities in the time period specified in the bidding specifications shall not exceed the retail price upper limit, which is composed of the unit natural gas purchase price, system usage charge and other factors. The system usage charge to be applied by these companies is equal to unit service and depreciation charge. The system usage charge that will applied by for the eligible consumers by these companies shall not exceed the unit service and depreciation charge, which they proposed in the bidding.

Unit transportation charge applicable to those purchasing only transportation service from the distribution company shall be determined through negotiations between the relevant parties, on the condition that such charge remains below the portion of the Board approved retail price, excluding natural gas unit purchase price.

Storage tariff

Article 15- Prices shall be set through negotiations between the storage companies and legal entities purchasing storage service, provided that such prices are in conformity with the Board approved storage tariff.

Storage companies shall prepare the basic usage principles and procedures for each storage facility they own and submit them to the approval of the Board, sixty days before the commencement of the implementation period. Such principles and procedures shall come into effect upon the approval of the Board. Storage facility usage principles cover general technical and commercial rules, in conformity with the principle of non-discrimination.

SECTION TWO

Temporary Articles and Final Provisions

Temporary Article 1 — Those engaged in natural market activities as per any right, certificate, permit or authorization granted prior to the effective date of the Law shall submit their tariff proposals and their current tariff implementations, together with the information and documents stated in article 8, to the Authority by 10/10/2002. The Authority shall determine and publish the new tariffs to be implemented, their respective effective dates and the respective terms through which such tariffs shall be effective.

The existing tariffs pertaining to natural gas market activities shall continue to be implemented, without any amendment whatsoever, as of the effective date of this Regulation, until the effective date of the new tariffs to be determined by the Authority. In case of non-compliance with this provision, relevant sanctions set forth in article 9 of the Law shall be applied.

BOTAŞ's tariffs shall be determined by the Board until 31/12/2002. Until

Disclaimer:

The English version of the Natural Gas Market Tariffs Regulation is intended to assist interested foreign parties. There may be discrepancies between the Turkish and English versions. In case such discrepancies occur, the Turkish version shall prevail.

31/12/2002, there shall be a single tariff; as of 1/1/2003, separate tariffs shall be implemented for transmission, storage and wholesale.

The method stated in article 12 shall not be applicable for BOTAŞ until the legal entity to conduct transmission activity is established as per the provisions of temporary article 2 of the Law.

Temporary Article 2 — Until the total annual imports of BOTAŞ correspond to twenty percent of the annual national consumption, in cases where competition is not established sufficiently or not established at all in the natural gas market, the wholesale prices may be determined by the Board; the legal entities which have partially or wholly taken over the existing natural gas purchase and sales contracts being an exception. Prices and tariffs pertaining to storage may be determined by the Board until the storage capacity in the country reaches an adequate level.

Retail sale prices and fixed connection charges applicable to non-eligible consumers shall be determined by the Board, based on the proposals of the distribution companies, until competition is established in market entry, until public participation in the existing distribution companies, owned, operated and natural gas trade rights of which are held by municipalities or municipality companies, fall to or below twenty percent as per temporary article 3(b) of the Law, and until Eskişehir and Bursa city distribution companies and assets stated in temporary article 3(a) of the Law are privatized.

Retail sale tariffs of the distribution companies in question shall be revised by the Board if such companies apply to the Authority for such action, explaining the reasons requiring change in the tariff, taking into account inflation and other issues. In determination of the prices by the Board, service cost, reasonable profit which shall allow for investment and current natural gas purchase price in the market and similar issues shall be taken into account.

Temporary Article 3 — From the natural gas local distribution companies that rely on a right, document, permission and authorization that was taken before the law no 4646 was in effect,

- a) Eskişehir Doğal Gaz Dağıtım A.Ş and Bursa Şehir İçi Doğal Gaz Dağıtım Ticaret ve Taahüt A.Ş shall apply the system usage charge as the unit service and depreciation charge which is determined by the the Board with decision number 211-16 and the transportation charge for the eligible customers by considering the eligible customer limit that is determined by the Board, for the eight (8) years from the privatization date.
- b) İzmit Gaz Dağıtım Sanayi ve Ticaret A.Ş shall apply the system usage charge as the unit service and depreciation charge which is determined by the the Board with decision number 1615 and the transportation charge for the eligible customers the Board with the same decision, for the eight (8) years from the privatization date.

Temporary Article 4 — For the first ten years of its license period, the system usage charges are applied under the unit service and depreciation charge and transportation charge which is determined by the Natural Gas Market Law numbered 4646 by Başkent Doğal Gaz Dağıtım A.Ş Fort he same period, the consumption volume of 800.000 cubis meters is used as the unit service and depreciation charge and transportation charge.

Disclaimer:

Temporary Article 5 — The retail price that will be applied for the non eligible customers by the legal entities that have taken natural gas distribution license by the bidding arranged by the Authority shall not exceed the retail price cap that is the sum of unit natural gas purchase price, unit service and depreciation charge that was proposed in the bidding and other factors.

Temporary Article 6 — Until the applications for the system usage charges are determined by the Board, unit service and depreciation charge is applied for the consumers with the consumption volume lower than 800.000 cubic meters and transportation charge is applied for the consumers with higher consumption.

Effectiveness

Article 16- This Regulation shall come into effect on the date it is issued, to be effective as of 1/10/2002.

Enforcement

Article 17- This Regulation shall be enforced by the President.

Disclaimer:

The English version of the Natural Gas Market Tariffs Regulation is intended to assist interested foreign parties. There may be discrepancies between the Turkish and English versions. In case such discrepancies occur, the Turkish version shall prevail.